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1938

Financial Statement

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DECEMBER 31

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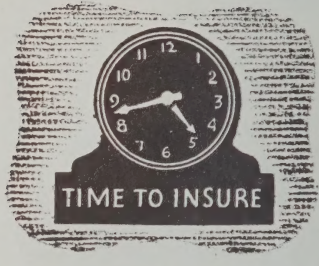
PACIFIC MUTUAL LIFE

INSURANCE COMPANY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THE LIBRARY OF THE
MAY 25 1939
UNIVERSITY OF ILLINOIS

Los Angeles, California
February 24, 1939.

TO THE POLICYHOLDERS OF
PACIFIC MUTUAL LIFE INSURANCE COMPANY:

Your management feels that the Company has come a long way this past year, not alone with respect to its own operations but also in the minds and hearts of those to whose service it is dedicated. There is an abiding sense of the sacredness of the trusteeship with which the institution of life insurance is endowed and a prevailing realization of this quality running throughout the whole organization. With this mutual understanding, on the part of those who are charged with the administration of the Company, and the policyholders in whose interest they serve, the following report is made.

The purpose for which an insurance company exists is to pay the benefits provided in the policy contracts, and it is an unquestioned fundamental that sound assets are the root of secure and adequate protection. There are contained in this report important items you will want to examine because they measure the capability of the Company in the discharge of its major responsibility. You are interested in knowing the amount of payments to policyholders and how this has been distributed, and other vital factors reflected in the published statement. Each subject is considered separately in this report so that you may more easily study the exhibits in detail; and then the whole is gathered together and summarized in convenient form as a single financial statement.

Payments to policyholders and their beneficiaries during the year amounted to $22,103,431.46. The ratio of the mortality actually experienced to that provided for in the premiums was 57.4%, which compares with an average for the preceding five years of 58.8%. It may be noted in connection with these figures that for each dollar paid as a death claim in 1938, your Company paid $2.37 to living policyholders.

The total volume of new life insurance paid for during the year was $29,704,465, including $1,023,437 of increases in existing policies and reinstatements. The effect of these acquisitions, after allowing for terminations from all sources, produced a net volume of life insurance in force in both the Participating and Non-Participating Departments of $592,315,627, equivalent to 97.7% of the year-end total for 1937. Of this insurance $376,348,541 is in the Participating Department and $215,967,086 in the Non-Participating Department.

In addition, the premiums of the Accident and Health Department amounted to $4,993,896.19.

Net interest earnings, after deducting all investment expense, were at the rate of 3.90% in the Participating Life Department and 3.88% in the Non-Participating Department. After combining this with the interest earnings of the Accident & Health, and Corporate Departments the net return for the Company as a whole was 3.75%.

ASSETS

The Company continued to improve its financial situation throughout the year, and at the close of 1938 Admitted Assets, as shown in the financial statement, were $232,781,741.75 compared with $227,378,108.52 in 1937, representing an increase of $5,403,633.23. Total Assets of the Participating Department are $145,273,053.53; of the Non-Participating Department, $56,009,788.50; Accident and Health Department, $26,864,420.17; and Corporate, $4,634,479.55.

Cash

The Company has kept a relatively larger proportion of its funds invested, thereby augmenting, to some degree, income received. Of the actual cash in banks, $4,050,000.00 is carried in interest-bearing certificates of deposit, as it is necessary to keep only a relatively small amount of cash on hand for day-to-day requirements. The Participating Department has $2,632,941.96; Non-Participating, $1,203,446.24; Accident and Health Department, $635,561.18; Corporate Department, $398,165.68.

Securities

There has been a substantial increase in the investment in securities during the year, the total amount at December 31, 1938, showing $92,419,841.19 as compared with $79,823,234.45 at the close of 1937. The Company publishes a complete list of its securities holdings and will be glad to mail a copy to anyone who is interested in examining this.

	1938		1937	
U.S. Government Bonds	$ 39,754,076.58	43.01%	$ 28,135,081.73	35.25%
State, County & Municipal Bonds	11,318,868.76	12.25	15,215,417.50	19.06
Canadian Government Bonds	2,553,270.75	2.76	1,294,045.00	1.62
	53,626,216.09	58.02	44,644,544.23	55.93
*Railroad Bonds	11,350,776.15	12.28	9,333,972.69	11.69
Public Utility Bonds	18,025,758.32	19.50	14,516,527.25	18.19
Industrial and Other Bonds	6,585,726.76	7.13	7,436,935.45	9.32
	35,962,261.23	38.91	31,287,435.39	39.20
Preferred Stocks	1,810,006.26	1.96	2,492,698.24	3.12
Common Stocks	1,021,357.61	1.11	1,398,556.59	1.75
	$ 92,419,841.19	100%	$ 79,823,234.45	100%

*$1,507,851.26 of Canadian National Railway and Canadian Northern Railway Bonds guaranteed by the Canadian Government are listed under Railroad Bonds.

The values at which these securities are carried meet the requirements of the Insurance Departments of the various states and the individual items give evidence of the fact that safety of principal has been of paramount importance in their selection. U. S. Government obligations represent 17.08% of total Admitted Assets of the Company, and of the railroad bonds owned 73.23% are issues classed as "A" or better in Moody's rating.

Ownership of the Securities
By Departments

Class of Security	Participating	Non-Participating	Accident and Health	Corporate
U.S. Government Bonds	$23,677,344.31	$ 8,674,569.42	$3,444,097.40	$3,958,065.45
State, County and Municipal Bonds	7,494,387.81	2,994,836.41	829,644.54	
Canadian Governm't Bonds	1,780,579.47	671,865.28	100,826.00	
*Railroad Bonds	7,658,213.42	2,736,167.23	956,395.50	
Public Utility Bonds	12,634,439.17	4,559,777.01	573,170.94	258,371.20
Industrial and Other Bonds	3,768,087.10	1,456,905.09	1,360,734.57	
Preferred Stocks	956,722.00	401,023.79	452,260.47	
Common Stocks	700,593.68	293,663.93	27,100.00	
	$ 58,670,366.96	$21,788,808.16	$7,744,229.42	$4,216,436.65

*$1,507,851.26 of Canadian National Railway and Canadian Northern Railway Bonds guaranteed by the Canadian Government are listed under Railroad Bonds. These bonds are distributed as follows: Participating $993,417.99; Non-Participating $393,945.27 and Accident and Health $120,488.00.

Mortgage Loans

Mortgage loans on real estate continue to attract investment funds in substantial sums. Well selected mortgages are sought as a desirable form of investment for insurance money and your Company is on the alert to increase its outlets in this field, both under its own and the FHA plan. The Company has $3,858,956.72 invested in FHA insured loans and is pursuing an expanding program in this direction. The average size FHA loan made with the Company is approximately $4,000.

In the loaning plan being pursued, particular attention is being paid to diversification of investment, both geographically and from the standpoint of distribution of risk. At the present time the Company maintains six branch offices of its Mortgage Loan Department, in charge of salaried representatives, to obtain and service mortgage investments on properties located in eighteen states.

The aggregate volume of mortgage loans outstanding as of December 31, 1938, is $71,671,727.13, distributed as follows:

Loans on City Properties	$65,636,998.22
Loans on Farm Properties	2,175,772.19
FHA Insured Loans	3,858,956.72

Of these loans, the Participating Department owns $41,269,898.18; the Non-Participating Department, $16,876,140.72, and the Accident and Health Department, $13,525,688.23.

Other Loans

Loans to policyholders of the Participating Department on the security of their policy reserves amount to $26,662,144.51 and $9,032,385.63 in the Non-Participating Department.

Collateral loans amount to $1,616,946.86. Liquidation of these loans is being accomplished in an orderly manner as circumstances permit. The Participating Department owns $1,139,365.45 of Collateral Loans and the Non-Participating Department, $477,581.41.

Real Estate

The Home Office property, owned by the Company, consists of a modern office building centrally located in the downtown section of Los Angeles, occupying an entire block on its principal frontage and that portion not used for Company purposes is leased to suitable tenants. In keeping with good business practice an annual charge of $270,851.39 is made for depreciation of the cost of the building and amortization of the land value. The Participating Department interest in this property is $7,318,561.26, and that of the Non-Participating Department, $3,067,680.31.

Other properties owned by the Company were acquired as the result of mortgage foreclosures. Such properties are carefully supervised and managed, to the end that they may be made attractive from an income-producing standpoint and disposed of as the opportunity arises to do so advantageously. Such real estate, as reported in the financial statement, is owned by the separate Departments in the following amounts: Participating Department, $4,545,754.98; Non-Participating Department, $1,905,418.64; and Accident and Health Department, $4,002,004.60.

An analysis of the real estate owned, other than the Home Office property, shows:

City Properties.....	$10,076,340.46
Farm Properties.....	376,837.76

Other Asset Items

The remaining Asset items require but little comment. Interest and Rents are sufficiently self-explanatory as they appear in the statement. Premiums

Outstanding and Deferred represent the amounts that are due from policyholders as payments under their contracts and fractional premiums credited to offset specific policy reserves carried as liabilities. "Other Assets" include miscellaneous items not readily classified in the other general accounts in the consolidated statement.

These assets are owned by the separate Departments as follows:

	Par.	Non-Par.	A & H	Corporate
Interest and Rents due and accrued	$ 991,840.19	$ 387,624.52	$196,385.34	$19,877.22
Premiums Outstanding and Deferred	2,020,074.35	1,266,008.14	753,976.54	
Other Assets	22,105.69	4,694.73	6,574.86	

LIABILITIES

Policy and Claim Reserves

The Company's obligations under its policy contracts can be grouped in two broad classes: First, the obligation to pay the benefits provided in the policy contracts as claims may occur in the future; second, the obligation to pay the benefits in instances where the event insured against has occurred.

As to the first, the measure of the obligation of the Company is the probability of the event insured against happening, and is offset by the value of the premiums to be received in the future together with accumulations. This is determined by mathematical calculation, in accord with requirements of the several states. This is known as the "Policy Reserve."

The second group of obligations consists of those cases in which the event insured against has occurred. This, in turn, is divided into two parts: First, those instances in which the Company has approved the claim, and the benefit is payable or the policyholder has chosen, under the terms of the contract, the amount that is payable in instalments in the future. This is shown in the statement as "Approved Claims Payable in Instalments." The second classification consists of claims for benefits, but proof has not been completed. This also includes an estimate based on an assumption that other policyholders may be entitled to make claim but have not done so at the time of completion of the statement. Classification between the several Departments follows:

	Par.	Non-Par.	A & H
Policy Reserve	$124,128,649.00	$50,314,405.00	$ 5,631,725.12
Approved Claims Payable in Instalments	9,707,166.00	3,834,340.00	18,244,613.00
Death, Disability and Endowment Claims Awaiting Proof	798,844.44	303,456.08	1,221,987.00

PACIFIC MUTUAL LIF

BALANCE SHEET, DECEMBER 31,
(Participating Life, Non-Participating

ASSETS

CASH ON HAND AND IN BANKS, INCLUDING TIME DEPOSITS		$ 4,870,115.06
BONDS:		
United States Government	$39,754,076.58	
Canadian Government	2,553,270.75	
States, counties and municipalities	11,318,868.76	
Other	35,962,261.23	
Total Bonds		89,588,477.32
CORPORATE STOCKS:		
Preferred	$ 1,558,147.61	
Common	1,273,216.26	
Total Corporate Stocks		2,831.363.87
MORTGAGE LOANS ON REAL ESTATE		71,671,727.13
COLLATERAL LOANS		1,616,946.86
LOANS ON POLICIES		35,694,530.14
REAL ESTATE:		
Home Office property	$10,386,241.57	
Other properties	10,453,178.22	
Total Real Estate		20,839,419.79
INTEREST AND RENTS DUE AND ACCRUED		1,595,727.27
PREMIUMS OUTSTANDING AND DEFERRED		4,040,059.03
OTHER ASSETS		33,375.28
TOTAL		$232,781,741.75

NOTES: The bonds and corporate stocks are stated on valua
ance Commissioners.

The accounts of the Company's agencies and branc
hence the transactions of such offices subsequent

The Company's capital stock is subject to the mut
22, 1936.

Financi

The business of Pacific Mutual Life Insurance Company i
pating Life, and Accident and Health). The assets are held to
were a separate company. Surpluses arising in the Non-Partic
the general corporate purposes of the Company, as are ten pe
pating Life business of The Pacific Mutual Life Insurance Co
Department, including all profits on Participating policies issu
ment as fully as if it were a mutual company. The ownership
dated Financial Statement is set forth in the accompanying R

NSURANCE COMPANY

, COMBINING ALL DEPARTMENTS
Accident and Health, and Corporate)

LIABILITIES

POLICY AND CLAIM RESERVES:		
Policy reserves	$180,074,779.12	
Approved claims payable in instalments	31,786,119.00	
Death, disability, and endowment claims awaiting completion of proofs	2,324,287.52	
Total Policy and Claim Reserves		$214,185,185.64
OTHER LIABILITIES TO POLICYHOLDERS:		
Policy dividends left with Company and accrued interest thereon	$ 4,917,800.00	
Reserve for dividends	1,154,283.99	
Advance premium deposits	916,513.52	
Advance interest on policy loans	691,308.31	
Total Other Liabilities to policyholders		7,679,905.82
RESERVE FOR FEDERAL, STATE, AND COUNTY TAXES		902,198.72
OTHER LIABILITIES		685,627.35
INVESTMENT CONTINGENCY RESERVES		4,253,238.44
UNASSIGNED SURPLUS (for the exclusive use of the Participating Life Department)		441,106.23
CAPITAL STOCK AND SURPLUS—AVAILABLE FOR ALL DEPARTMENTS:		
Capital stock (authorized and issued, 10,000 shares of $100.00 each)	$ 1,000,000.00	
Surplus (including paid-in surplus, $2,000,000.00)	3,634,479.55	
Total Capital Stock and Surplus		4,634,479.55
TOTAL		$232,781,741.75

ases approved by the National Association of Insur-

es are closed on the fifteenth day of each month;
cember 15, 1938, are not reflected in above statement.
ion option provided for in the agreement of July

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ucted in three Departments (Participating Life, Non-Partici-
their respective obligations as fully as if each Department
Life and Accident and Health Departments are available for
of the profits (before policy dividends) of reinsured Partici-
of California. The remaining profits of the Participating Life
he Company, are held to secure the obligations of that Depart-
separate Departments of the Assets described in the Consoli-
o Policyholders.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

PACIFIC MUTUAL BUILDING
LOS ANGELES

ACCOUNTANTS' CERTIFICATE

To the Board of Directors of
Pacific Mutual Life Insurance Company:

We have made an examination of the balance sheet of Pacific Mutual Life Insurance Company as of December 31, 1938. In connection therewith, we examined or tested Home Office accounting records of the Company and other supporting evidence and made a general survey of the accounting methods and tests of the income and disbursement accounts for the year 1938.

Our survey of accounting methods extended to the various departments of the Company responsible for the control of its income and expenditures and for the custody of its assets. As a result of our survey and of our examination or tests of the cash and other transactions we are of the opinion that the methods employed and the controls exercised are effective.

We verified the cash balances by count and certification of the depositaries, and the bonds, corporate stocks, and collateral notes by inspection of those on hand and confirmation of the depositaries as to those held elsewhere. We examined a representative number of mortgage loans by inspection of the notes, mortgages, and other documents, and made test confirmations of the balances by correspondence with the debtors. Bonds and real estate mortgages deposited with various state authorities to meet statutory requirements, $1,022,226.18, were confirmed to us by the holders. As to policy loans we made test inspections of the loan contracts. We examined the records and related documents pertaining to all real properties acquired and disposed of during the year.

The investment securities are stated on valuation bases approved by the National Association of Insurance Commissioners, i.e., amortizable bonds at amortized values, non-amortizable bonds at market values at December 31, 1938, and corporate stocks at book values. The real properties are stated at values set up at the date of the reorganization, July 22, 1936, plus subsequent additions at cost, less deductions of $869,578.30 for depreciation and amortization of the Home Office property. The values set up at July 22, 1936, are those determined by the convention examination of the predecessor company as of December 31, 1935, brought down to reflect the changes to July 22, 1936. Policy and claim reserves aggregating $212,420,289.07 were confirmed by certificates of the Insurance Department of the State of California; the dividend apportionments were determined by the actuary of the Company. The investment contingency reserves represent the amount of the valuation requirement for collateral loans, and the Company's estimate of possible losses on realization of mortgage loans and real estate.

In our opinion, based on such examination, the accompanying balance sheet fairly presents the financial condition of the Company at December 31, 1938.

February 15, 1939.

HASKINS & SELLS

Other Liabilities to Policyholders

Many policyholders prefer to let the dividends on their policies remain with the Company at interest. The amount of such dividends left with the Company, together with interest to December 31, 1938, is $4,917,800.00.

The major part of the item called "Reserve for Dividend Payments to Policyholders" consists of dividends, payment of which is anticipated in the first six months of 1939. It also includes dividends due in the past, but which the Company had been unable to settle at the time of the statement.

"Advance Premium Deposits" consist mainly of deposits made by policyholders to meet premiums falling due subsequent to December 31, 1938, and also includes such premiums as are due subsequent to December 31, 1938, but payment of which had been made as of that date.

The item of "Advance Interest on Policy Loans" is future interest on policy loans, charged or received prior to December 31, 1938.

Segregation between the several Departments shows:

	Par.	Non-Par.
Policy Dividends and Interest	$4,897,279.00	$ 20,521.00
Reserve for Dividends	1,154,283.99	
Advance Premium Deposits	789,626.10	126,887.42
Advance Interest on Policy Loans	521,610.75	169,697.56

"Reserves for Taxes" represent provision for anticipated payments to local, state and federal governments amounting to $902,198.72. Of this amount, $476,216.60 is payable by the Participating Department; $217,837.61 by the Non-Participating Department; and $208,144.51 by the Accident and Health Department. Policyholders need to be informed of the increasing tax charge against the premium dollar, for it is the Policyholder who pays the money just as certainly as though the payment were direct.

Other Liabilities

This includes accounts for services, supplies, commissions to agents, and miscellaneous liabilities for which bills have not been received or settlement made by the close of the year. Other liabilities are segregated as follows: Participating Department $202,822.28; Non-Participating Department $119,156.29; Accident and Health Department $363,648.78.

Investment Contingency Reserves

Capital and Surplus Accounts

From the surplus of the Participating Department, there was transferred to Investment Contingency Reserves the sum of $321,144.31, and there was allocated for Payment of Dividends to Participating Policyholders $2,029,295.12. so that at the close of the year the unassigned surplus for the exclusive use of the Participating Department amounted to $441,106.23. The mortality losses and the losses under the Permanent Total Disability Benefits in the Participating Department in 1938 were somewhat greater than in the previous year. In the life insurance business, it is to be expected that losses will be higher in some years than in others but it is also to be expected that such losses will average out over a period of years.

The Investment Contingency Reserves are assigned: Participating Department $2,155,449.14; Non-Participating Department $903,487.54; Accident and Health Department $1,194,301.76.

The Capital of $1,000,000, together with $2,000,000 of the Corporate Surplus, is the amount paid in for the stock of the Company. An additional $1,634,479.55 has been accumulated from surplus earnings not otherwise distributed and added to Corporate Surplus, resulting in the present total of $3,634,479.55. The combined Capital and Corporate Surplus, aggregating $4,634,479.50, is added protection for the policyholders of all Departments, including the Participating Department. In addition, there is an Unassigned Surplus for the exclusive use of the Participating Department, amounting to $441,106.23.

All of the capital stock of the Company is held by Voting Trustees:

Wallace M. Alexander	Harvey S. Mudd
*Arthur S. Bent	Victor H. Rossetti
Colbert Coldwell	Dr. Rufus B. von KleinSmid

The Insurance Commissioner of the State of California

Mr. Alexander is Chairman of the Board of Alexander & Baldwin, Ltd., of Honolulu and San Francisco, and is a Trustee of Stanford University.

Mr. Bent is of the engineering firm—Bent Bros., Inc., long identified with the development of the southwest; he is past president of the Los Angeles

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*Deceased: February 17, 1939

Chamber of Commerce, and a Trustee of Pomona College.

Mr. Coldwell is the senior partner of the firm, Coldwell, Cornwall and Banker, leading real estate dealers on the Coast; he is one of the civic leaders of San Francisco.

Mr. Mudd is a Mining Engineer, prominently identified with the direction of the California Institute of Technology, Huntington Library, Southwest Museum, and Chairman of the Board of Fellows of Claremont Colleges.

Mr. Rossetti is one of the best-known bankers and financiers of the West, is President of The Farmers and Merchants National Bank of Los Angeles, a member of the Metropolitan Water District board, and active in public affairs.

Dr. von KleinSmid is President of the University of Southern California, internationally known for his achievements in the fields of education, political science and philosophy, and a trustee and director of many of the foremost social institutions of the Nation.

This report would be incomplete should it fail to comment upon the character, capacity and enterprise of the Field Organization, representing Pacific Mutual in forty states and the District of Columbia, and of the Home Office staff, whose loyalty and conscientious application to the affairs of the Company find reflection in the daily conduct of its business. Many of these people have devoted a quarter of a century, and more, to the institution of Life Insurance and have uniformly sought to apply to their calling the ethical standards of a profession. Nor should reference be omitted to the benefit that has been derived from the unselfish service of the Board of Directors. Their duties impose great responsibilities, which they have recognized and faithfully discharged, and this acknowledgment is one that should be made in communicating with the policyholders.

President.

PACIFIC MUTUAL AGENCIES

ALABAMA—Tuscaloosa
Frank Fitts, State Agent

ARIZONA—Phoenix
F. B. Schwentker, Gen. Agt.
711 Title and Trust Building

ARKANSAS—Little Rock
C. L. Durrett, General Agent
715-19 Rector Building

CALIFORNIA

Fresno
Charlton G. Standeford,
General Agent
328 Brix Building

Los Angeles
Paschall-Gist Company,
General Agents
523 West Sixth Street

A. N. Boulton, Sales Mgr.,
Railroad Dept.
523 West Sixth Street

Oakland
Ted Dreyer, General Agent
903-8 Central Bank Building

Sacramento
Herbert G. Pink, General Agent
209-11 Forum Building

San Diego
G. Campbell Janney, Gen. Agt.
515 First National Bank Bldg.

San Francisco
H. Kenneth Cassidy, Gen. Agt.
660 Market Street

San Jose
C. T. Abell, General Agent
508-9-10 Twohy Building

COLORADO—Denver
Fabling and Fabling,
General Agents
607 Colorado Building

DELAWARE
Hare and Chase, Gen. Agts.
133-35 South Fourth Street
Philadelphia, Pennsylvania

DISTRICT OF COLUMBIA
Washington
Donald Webster, Acting Mgr.
204-7 Kellogg Building

FLORIDA—Tampa
W. R. Letcher, General Agent
311 Twiggs Street

GEORGIA—Atlanta
Emory L. Jenks, Gen. Agt.
1317-22 First Nat. Bank Bldg.

IDAHO
Hazen Exeter, General Agent
510 Continental Bank Building
Salt Lake City, Utah

ILLINOIS

Chicago
E. E. Henderson, Gen. Agt.
A1845 Insurance Exch. Bldg.

John L. Watts, General Agent
2015-17 Conway Building

C. H. Davis, Manager
Railroad Dept.
506 Insurance Exchange Bldg.

Springfield
Leon J. Senesac, General Agent
405 Ferguson Building

INDIANA

Evansville
A. Wayne Toy, General Agent
Mezz. Fl. Citizens Bank Bldg.

Indianapolis
Earl T. Bonham, Gen. Agt.
401-6 Chamber of Com. Bldg.

IOWA

Cedar Rapids
Oscar J. Larson, General Agent
435-7 Higley Building

Des Moines
Byron L. Hart, General Agent
726-8 Des Moines Building

KANSAS—Wichita
William E. Moore, Gen. Agt.
310 Brown Building

KENTUCKY—Louisville
Thomas H. Wall, Gen. Agt.
431-2 Martin Brown Building

LOUISIANA—New Orleans
Guy C. Lyman, General Agent
713-16 Hibernia Bank Building

MARYLAND—Baltimore
Bowen, Bartlett and Kennedy
General Agents
26 South Calvert Street

MICHIGAN

Detroit
E. Walter Albachten, Gen. Ag
1232-40 National Bank Buildin

Grand Rapids
C. T. Allen, General Agent
411 Assn. of Commerce Bldg.

MISSISSIPPI—New Albany
Paul Owen, General Agent

MISSOURI

Kansas City
R. J. Wetzel, General Agent
12th Fl. Insurance Exch. Bldg.
21 West 10th Street

St. Louis
Rex N. Rafferty, General Agen
506 Olive Street—Eighth Floor

PACIFIC MUTUAL AGENCIES

MONTANA—Billings
Harry Reynolds, General Agent
516-17 Securities Building

NEBRASKA—Omaha
Frank L. Sveska, Gen. Agt.
712 First National Bank Bldg.

NEVADA
Hazen Exeter, General Agent
510 Continental Bank Building
Salt Lake City, Utah

NEW JERSEY—Newark
T. C. Sherman, Manager
Suite 1601-3, 60 Park Place

NEW MEXICO
The Schwentker-Bruce Agency
915 Mills Building
El Paso, Texas

NORTH CAROLINA—Charlotte
G. W. Patterson, General Agent
116½ East 4th Street

NORTH DAKOTA—Fargo
P. W. Satory, General Agent
501 New Black Building

OHIO
Cincinnati
Joseph M. Gantz, Gen. Agt.
23rd Floor Carew Tower
Columbus
Joseph M. Gantz, Gen. Agt.
3100-10 A. I. U. Tower
Cleveland
R. B. Coffman, General Agent
810 Leader Building
Dayton
F. C. Holloway, General Agent
1006-8 Harries Building

OKLAHOMA—Oklahoma City
C. C. Day, General Agent
801-5, 847-55 Amer. Nat. Bldg.

OREGON—Portland
E. A. Ellis, General Agent
1100 Yeon Building

PENNSYLVANIA
Allentown
George C. Hutchins, Gen. Agt.
511-13 Commonwealth Building
Erie
Cyrus Lund, General Agent
1403 Erie Trust Building
Philadelphia
Hare and Chase, Gen. Agts.
133-35 South 4th Street
J. C. Staples, Manager
404 Perry Building
Pittsburgh
Hoover and Diggs, Gen. Agts.
10th Fl. Commonwealth Bldg.
A. M. Klages, Manager
904 Clark Building

SOUTH CAROLINA—Anderson
J. W. Dickson, State Agent
Anderson Building

SOUTH DAKOTA—Deadwood
Seth R. Ellis, General Agent

TENNESSEE—Memphis
Cliff Blackburn, General Agent
1003-6 Farnsworth Building

TEXAS
Dallas
Lem C. Swinney, Gen. Agt.
10th Fl. Tower Petroleum Bldg.
El Paso
The Schwentker-Bruce Agency
915 Mills Building
Galveston
Leon M. Blum, General Agent
501-3 Trust Building
Houston
Jul B. Baumann, General Agent
1529-32 Shell Building
San Antonio
D. J. Farrell, General Agent
1515 Milam Building

UTAH—Salt Lake City
Hazen Exeter, General Agent
510 Continental Bank Building

VIRGINIA
Farmville
J. E. Garland, State Manager
337 Main Street
Lynchburg
W. W. Averett, Jr., Gen. Agt.
411-14 Peoples' Nat. Bank Bldg.
Roanoke
W. K. Davis, District Manager
720-21 Shenandoah Life Bldg.

WASHINGTON—Seattle
Lloyd A. Perkins, Gen. Agt.
318 Skinner Building
The Dwight Mead Agency
322 Skinner Building

WEST VIRGINIA—Huntington
Theodore Hundley, State Mgr.
501 Chesapeake and Ohio Bldg.

WISCONSIN—Milwaukee
E. H. Mueller, General Agent
933-4 Bankers Building

WYOMING
Fabling and Fabling,
General Agents
607 Colorado Building
Denver, Colorado

BOARD OF DIRECTORS

ASA V. CALL, *Los Angeles*
Executive Vice President and General Counsel

SHANNON CRANDALL, *Los Angeles*
President, California Hardware Company

GEORGE GUND, *Cleveland, Ohio*
President, The Gund Realty Company

RUSSELL HARRIMAN, *Los Angeles*
Secretary

SAMUEL M. HASKINS, *Los Angeles*
Senior Partner, Gibson, Dunn & Crutcher, Attorneys

JOHN EARLE JARDINE, *Los Angeles*
President, William R. Staats Co.

A. N. KEMP, *Los Angeles*
President

D. C. MAC EWEN, *Los Angeles*
Vice President in Charge of Agencies

H. S. MACKAY, JR., *Los Angeles*
Flint & MacKay, Attorneys

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A. J. MCFADDEN, *Santa Ana*
President, California State Chamber of Commerce

HENRY S. MCKEE, *Los Angeles*
President, Pacific Southern Investors

H. W. O'MELVENY, *Los Angeles*
O'Melveny, Tuller & Myers, Attorneys

WILLIAM A. SIMPSON, *Los Angeles*
President, William Simpson Construction Company

GUY LEROY STEVICK, *San Francisco*
Director and Vice President,
Fidelity & Deposit Company of Maryland

368.302
P11f
1939

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MAR 13 1940
UNIVERSITY OF ILLINOIS

FINANCIAL STATEMENT

DECEMBER
1939

PACIFIC MUTUAL LIFE
INSURANCE COMPANY

TIME TO INSURE

368.302
P11
1939

THE LIBRARY OF THE
MAR 13 1940
UNIVERSITY OF ILLINOIS

Los Angeles, California
February 20, 1940.

To Pacific Mutual Policyholders:

In presenting this annual report, with its accompanying balance sheet, there are certain points which we feel are particularly significant. To give these the emphasis they deserve, we have phrased questions, such as you might ask if you were here in person to sit down and go over the report in detail. The answers undertake to give a concise and factual presentation, just as though we were in conversation with you.

While many important phases of the annual report are touched upon, we shall be glad to have you write us in connection with other questions which may occur to you.

In particular we wish to commend to you the service of our Agency organization. The Field Force of your Company is composed of trained and experienced men who are capable of supplying the answers to inquiries you may have occasion to make. Your Company takes great pride in the type of men who represent it, and this tribute we pay them is well deserved.

In accordance with our established custom, independent audits and examinations of the Company's records for the year were secured. The firm of Haskins & Sells, Certified Public Accountants, was retained to audit the Company's books, and William M. Corcoran, Consulting Actuary, of New York, checked policy and claim reserves.

Your comments or suggestions are welcomed and we shall be glad to have you write us expressing your opinion with respect to the subject matter included in this report.

President.

ASSETS

QUESTION: **Have the Company's Assets increased?**

ANSWER: Yes. Not only did Assets increase $7,757,232.88 during 1939 but the total Assets themselves reached an aggregate of $240,538,974.63, the largest in the history of the Company. Sound Asset growth is always an evidence of business vitality, and particularly so in its application to the institution of Life Insurance. Sound Assets are the foundation of sound insurance, and your Company regards this as the measure by which its recognition of the obligation to you may be judged. Ownership of the Assets by the respective Departments is:

Participating Department	$150,921,259.90
Non-Participating Department	58,141,281.56
Accident and Health Department	26,201,508.75
Corporate—applicable to all Departments	5,274,924.42

In the subsequent portions of this report Assets and Liabilities are not segregated between the several Departments but are treated together.

QUESTION: **What are the principal Assets of the Company?**

ANSWER: Bonds and First Mortgage Loans represent 71.6% of the Admitted Assets. The investment in Bonds and Stocks totals $90,426,175.48 and in Mortgage Loans $83,865,922.12. An analysis of security holdings by classification shows:

Class of Security	
U. S. Government Bonds	$41,522,058.64
State, County & Municipal Bonds	10,582,897.44
Canadian Government Bonds	2,548,018.45
Public Utility Bonds	16,597,216.63
Railroad Bonds	10,907,380.08
Industrial and Other Bonds	6,105,264.36
Preferred Stocks	1,144,212.20
Common Stocks	1,019,127.68
Total	$90,426,175.48

QUESTION: **How do the Company's bonds rate as to quality?**

ANSWER: The quality of the Company's bond investments is indicated by the foregoing schedule and by the further fact that 86.93% of the Company's bonds are rated "A" or better by one of the leading bond rating services.

QUESTION: **Where can I get a list of the Company's security investments?**

ANSWER: A complete list of our security investments will be mailed to you on request. We suggest that you show it to your banker and ask his opinion of the quality of our investments as shown therein.

QUESTION: **What is the Company's experience with Mortgage Loans, and what is its attitude towards increased investment in them?**

ANSWER: The dollar volume of new mortgage investments made during the year amounts to $21,398,160.33. The extent of diversification is illustrated by the fact that the Company has a total of 6,312 loans for $83,865,922.12, secured by properties in twenty-two states. An average loan of $13,286.74 is indicative of the distribution of risk. Branch offices of the Mortgage Department are maintained in six different cities, with salaried representatives in charge, to assist in the solicitation and servicing of mortgage investments.

Particular care is also taken to diversify the character of property on which this Company makes loans, and the classification of such properties includes single and multiple dwellings, mercantile, office buildings, industrial properties, apartment houses, and farms, in carefully selected areas. Security and safety of principal is the keynote of the Company's investment policy.

Type of Loan

Loans on City Properties	$61,942,641.70
Loans on Farm Properties	1,946,172.66
F.H.A. Insured Loans*	19,977,107.76

*Includes $233,546.77 of unamortized Premiums paid on purchase of such loans.

QUESTION: **Does the Company invest in Real Estate?**

ANSWER: No. Real estate owned by the Company, other than its Home Office, has been acquired as the result of foreclosures of mortgage loans, nearly all of which were made years ago. Such properties coming into the possession of the Company are carefully studied, appraised, and conditioned for resale as circumstances permit. During the year 1939, sales of real estate by the Company totaled $1,856,263.02, including $227,851.12 real estate sold under contract. At the end of 1939 real estate owned, other than the Home Office, was carried at $9,535,854.94

(City Properties $9,122,041.59; Farm Properties $413,813.35), a net reduction of $917,323.28 during the year.

The Home Office property is situated in the center of downtown Los Angeles and consists of a modern office building occupying an entire block on its principal frontage and affording, in addition to necessary quarters for the Company, office space which is leased to suitable tenants. An annual charge of $270,851.39 is made for depreciation and amortization of this property.

QUESTION: **What are Loans on Policies?**

ANSWER: These are loans made to Policyholders, with the policy reserve as the Company's security. There are 75,399 loans outstanding, for an aggregate of $34,027,832.09, with the average amount $451.30. During 1939 the volume of such loans declined $1,666,698.05 from the previous year. It is always desirable to have the Policies kept free from indebtedness so that the protection may be maintained as originally planned.

QUESTION: **What are the other Assets?**

ANSWER: $5,274,080.57 in cash and in Bank Deposits is the largest single item of the remaining Assets. Of this amount $3,000,000.00 is in interest-bearing Certificates of Deposit. Collateral loans total $1,867,260.97 and are being liquidated as circumstances permit. Interest and Rents, due or accrued, total $1,477,483.77, and Premiums, outstanding and deferred, aggregate $3,947,751.12. Other Assets, amounting to $1,223.39, consist of miscellaneous items not readily classified in the general accounts.

QUESTION: **What have been the interest earnings of the Company?**

ANSWER: Interest earnings were at the rate of 3.83% for the two Life Departments combined, and 3.66% for the Company as a whole (after deducting all investment expense, including non-recurring items). A comparison with the experience of the previous year shows that in 1938 the average rate for the Company as a whole was 3.75%. The decline in interest rates is an expression of the times, with high taxes, low yield on securities, and an absence of demand for money at profitable rates. Viewed in the light of prevailing conditions, however, we consider the earning record of the past year very favorable.

QUESTION: **How much did the Company pay to its Policyholders and their Beneficiaries during the past year?**

ANSWER: The Company distributed $20,300,894.15 to its Policyholders and Beneficiaries during 1939. That the funds so distributed are indeed "Life Insurance" is best illustrated by the fact that for each dollar paid as a death claim the Company paid $2.66 to living Policyholders in the form of annuities, maturity values, dividends and other payments. Obviously the primary purpose for which any life insurance company exists is to pay the benefits provided in the policy contracts.

QUESTION: **What was the Company's average Mortality experience, and just what is meant by "Mortality"?**

ANSWER: Expressed in terms of "per cent," the Actual Mortality experienced in 1939 was 53.8% of that expected. Legal reserves are calculated on mortality tables which provide that a certain number of the persons insured at any given age will be expected to die within each successive year. Because of careful medical selection and proper underwriting practices, the actual number who die in each year proves less than those mortality tables provide for. Then it is said that the "Actual" Mortality is better than the "Expected" Mortality.

QUESTION: **What was the volume of new Life Business in 1939?**

ANSWER: A total of $33,603,220 of new Life Insurance was purchased during 1939, including $948,801 of increases in existing policies and reinstatements. This represents an increase of approximately 13.1% over the previous year and compares with an average increase of only 3% for the nation generally. Life Insurance is an important factor in the social well-being of the nation. The Company actively seeks applications for new insurance, and particularly from its present Policyholders.

QUESTION: **How extensive is the scope of the Company's business?**

ANSWER: Pacific Mutual conducts its business in 40 states and in the District of Columbia. It is represented by 64 General Agencies, located in the principal cities throughout the territory. The service of the Company, however, follows the Policyholder, and at present extends to individuals in every state and territorial possession and to American citizens in 17 foreign countries.

PACIFIC MUTUAL LIFE

BALANCE SHEET, DECEMBER 31, 1

(Participating Life, Non-Participating H

ASSETS

CASH ON HAND AND IN BANKS (including time deposits)		$ 5,274,080.57
BONDS:		
United States Government	$41,522,058.64	
Canadian Government	2,548,018.45	
States, counties, and municipalities	10,582,897.44	
Public utility, industrial, and other	33,609,861.07	
Total bonds		88,262,835.60
CORPORATE STOCKS:		
Preferred	$ 1,144,212.20	
Common	1,019,127.68	
Total corporate stocks		2,163,339.88
MORTGAGE LOANS ON REAL ESTATE (including F. H. A. loans, $19,977,107.76 with unamortized premiums of $233,546.77)		83,865,922.12
COLLATERAL LOANS		1,867,260.97
LOANS ON POLICIES		34,027,832.09
REAL ESTATE:		
Home Office property	$10,115,390.18	
Other properties	9,535,854.94	
Total real estate		19,651,245.12
INTEREST AND RENTS DUE AND ACCRUED		1,477,483.77
PREMIUMS OUTSTANDING AND DEFERRED		3,947,751.12
OTHER ASSETS		1,223.39
TOTAL		$240,538,974.63

NOTES: At December 31, 1939, bonds and real estate mortgages (trust deeds) authorities to meet statutory requirements.

The accounts of the Company's agencies and branch offices are closed quent to December 15, 1939, are not reflected in the above stateme

The Company's capital stock is subject to the mutualization option p

Financia

The business of Pacific Mutual Life Insurance Company is conducted in th Health). The assets are held to secure their respective obligations as fully as if ing Life and Accident and Health Departments are available for the general co dividends) of reinsured Participating Life business of The Pacific Mutual Life Department, including all profits on Participating policies issued by the Compa mutual company. The ownership by the separate Departments of the Assets de Report to Policyholders.

NSURANCE COMPANY
, COMBINING ALL DEPARTMENTS
Accident and Health, and Corporate)

LIABILITIES

POLICY AND CLAIM RESERVES:		
Policy reserves	$186,545,957.25	
Approved claims payable in instalments	32,261,517.00	
Death, disability, and endowment claims awaiting completion of proofs	2,535,049.53	
Total policy and claim reserves		$221,342,523.78
OTHER LIABILITIES TO POLICYHOLDERS:		
Policy dividends left with Company and accrued interest thereon	$ 5,199,509.00	
Reserve for dividends	1,027,553.25	
Advance premium deposits	916,918.20	
Advance interest on policy loans	693,585.53	
Total other liabilities to policyholders		7,837,565.98
RESERVE FOR FEDERAL, STATE. AND COUNTY TAXES		903,503.16
OTHER LIABILITIES		829,600.35
INVESTMENT CONTINGENCY RESERVES		3,952,825.86
UNASSIGNED SURPLUS (for the exclusive use of the Participating Life Department)		398,031.08
CAPITAL STOCK AND SURPLUS (available for all departments):		
Capital stock (authorized and issued, 10,000 shares of $100.00 each)	$ 1,000,000.00	
Surplus (including paid-in surplus, $2,000,000.00)	4,274,924.42	
Total capital stock and surplus		5,274,924.42
TOTAL		$240,538,974.63

the aggregate book value of $964,944.22 were on deposit with various state

the fifteenth day of each month; hence the transactions of such offices subse-

led for in the agreement of July 22, 1936.

tructure

Departments (Participating Life, Non-Participating Life, and Accident and
n Department were a separate company. Surpluses arising in the Non-Participat-
ite purposes of the Company, as are ten per cent of the profits (before policy
rance Company of California. The remaining profits of the Participating Life
re held to secure the obligations of that Department as fuliy as if it were a
ed in the Consolidated Financial Statement is set forth in the accompanying

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS
PACIFIC MUTUAL BUILDING
LOS ANGELES

ACCOUNTANTS' CERTIFICATE

To the Board of Directors of
Pacific Mutual Life Insurance Company:

We have made an examination of the balance sheet of Pacific Mutual Life Insurance Company as of December 31, 1939. In connection therewith, we examined or tested Home Office accounting records of the Company and other supporting evidence and made a general survey of the accounting methods and tests of the income and disbursement accounts for the year 1939.

Our survey of accounting methods extended to the various departments of the Company responsible for the control of its income and expenditures and for the custody of its assets. As a result of our survey and of our examination or tests of the cash and other transactions we are of the opinion that the methods employed and the controls exercised are effective.

We verified the cash balances by count and by certification of the depositaries, and the bonds and corporate stocks by inspection of those on hand, and by confirmation of the depositaries as to those held elsewhere. We examined a representative number of mortgage loans by inspection of the notes and related documents and made test confirmations of the balances by correspondence with the debtors; we examined the collateral loans by inspection of the notes and collateral pledged thereunder, and confirmed their correctness by reference to the borrowers; as to policy loans, we made test inspections of the loan contracts. We examined the records and supporting documents pertaining to all real properties acquired or disposed of during the year.

The investment securities are stated on valuation bases approved by the National Association of Insurance Commissioners, i.e., amortizable bonds at amortized values, non-amortizable bonds at market values at December 31, 1939, and corporate stocks at book values. The real properties are stated at values set up at the date of the reorganization, July 22, 1936, plus subsequent additions at cost or less, and after deducting $1,142,004.70 for depreciation and amortization of the Home Office property. The values set up at July 22, 1936 are those determined by the convention examination of the predecessor company as of December 31, 1935 brought down to reflect the changes to July 22, 1936. The policy and claim reserves were examined by Mr. William M. Corcoran, Consulting Actuary, of New York City, who has stated in his certificate that the total of such reserves, $221,342,523.78, is a satisfactory and adequate present valuation of the Company's liability therefor. The investment and contingency reserves represent the amount of the valuation requirement for collateral loans, and the Company's estimate of possible losses on realization of mortgage loans and real estate.

In our opinion, based upon such examination, the accompanying balance sheet fairly presents the financial condition of the Company at December 31, 1939.

Los Angeles, February 12, 1940. HASKINS & SELLS

QUESTION: **How large is the Company in comparison with others?**

ANSWER: Abraham Lincoln, when asked: "How long should a man's legs be?" replied: "Long enough to reach the ground."

It is our belief that an Insurance Company should be large enough to afford diversification of investment—geographically and typically—and to provide a variety of policy contracts sufficient to permit complete coverage of individual needs.

In the latest publication of the "Table of Rank" for 1938, in which are listed 220 American Life Insurance Companies, Pacific Mutual ranks 20th, and had at the close of 1939 $587,079,647.00 insurance in force. With respect to "Admitted Assets" ($240,538,974.63) and "Payments to Policyholders" ($20,300,894.15) it is 16th in each group, and in "Total Income" ($39,074,285.83) it ranks 19th. Pacific Mutual is large enough to meet every requirement of size, but we believe that the real test of its adequacy is found in the character of its Assets and in its responsiveness to the consideration of the best interests of the individual Policyholder.

QUESTION: **To whom are Policyholders' Dividends paid, and what is their source?**

ANSWER: Policyholders who own Participating Life Policies—that is, policies which are issued and carried in the Participating Department of the Company—receive Policy Dividends, on an annual basis, as declared by the Board of Directors. The basic principle of Participating Life Insurance is that the Policyholder is to receive his insurance at cost. That is accomplished by paying him so-called dividends made up of the savings due to more favorable mortality than "expected," greater interest earnings than required, and from economical management.

LIABILITIES

QUESTION: **What are the Policy and Claim Reserves?**

ANSWER: The tremendous sum of $221,342,523.78 is the amount required to assure the Company's ability to meet all future payments to Policyholders and their Beneficiaries under the provisions of the policy contracts. Each year the amount of this obligation is mathematically calculated, and the sums so determined are called "reserves." Pacific

Mutual is a Legal Reserve Company, and the formula by which its Reserves are determined is in accord with requirements of the several states.

QUESTION: **What are Other Liabilities to Policyholders?**

ANSWER: The principal items included in this category are (1) Dividends left with the Company and the interest accumulated thereon of $5,199,509.00, and (2) Dividends in course of payment and those which the Company expects to pay to Participating Policyholders during the first six months of 1940, and also deferred dividend funds distributable in the future, totaling in all $1,027,553.25. In addition, there are $916,918.20 deposits for payment of premiums falling due in the future, as well as interest on policy loans, received in advance, amounting to $693,585.53.

QUESTION: **Are Taxes a considerable item?**

ANSWER: Taxes on Life Insurance are a "Tax upon a Tax." Tax levies paid by Life Insurance are in fact subtracted from the Policyholder's Premiums, voluntarily assessed, to provide for himself and his Beneficiaries that measure of security and independence for which a tax itself is levied. The sum — whatever its size (and the Reserve of $903,503.16 the Company has established for future payments indicates the large proportions to which the tax item has grown)—is a burden which is paid by the Policyholder. In addition to the direct Taxes, such as Real Estate Taxes, Premium Taxes, and the other usual levies, there are many hidden Taxes, all of which contribute to the cost of your insurance.

QUESTION: **Aside from Liability to Policyholders, what are the "Other Liabilities" of the Company?**

ANSWER: Under the general heading of Other Liabilities are grouped the many miscellaneous items due or shortly to become due, including services, supplies, commissions, and other liabilities for which bills have not been received or settlement made by the close of the year, but for which provision has been made, and aggregating $829,600.35.

QUESTION: **Why does the Company maintain an Investment Contingency Reserve?**

ANSWER: The Company recognizes that among its assets, and particularly those acquired during or prior to the depression years, are a few items on which it is anticipated a loss

may be taken upon their disposal. Each year, as the assets are examined and carefully studied, an estimate is made as to what this ultimate loss might be, and the Board of Directors then approves the establishment of a reserve against that contingency. Such estimates of course are made with due regard for prevailing conditions and the outlook for the future. On December 31, 1939, the aggregate Investment Contingency Reserve amounted to $3,952,825.86.

QUESTION: **What is the occasion for Capital and Surplus?**

ANSWER: Capital and Corporate Surplus are factors of security for the added protection of all Policyholders. During 1939 the Company's Corporate Surplus increased by $640,444.87; so, at the year end the Company had Capital of $1,000,000.00 and Corporate Surplus of $4,274,924.42 (of which $2,000,000.00 had been paid in). This aggregate of $5,274,924.42 Combined Capital and Corporate Surplus is applicable to all Departments, in addition to the $398,031.08 of Surplus held exclusively for the Participating Department.

To the unexpressed question as to the personal factors in any organization, of which no evaluation can be made in the balance sheet, it should be said that your Company is indeed possessed of rich and enduring resources personified in the Voting Trustees, the members of the Board of Directors, the Home Office staff, and the Field Organization.

PACIFIC MUTUAL AGENCIES

ALABAMA—Tuscaloosa
Frank Fitts, State Agent

ARIZONA—Phoenix
F. B. Schwentker, Gen. Agt.
711 Title and Trust Building

ARKANSAS—Little Rock
C. L. Durrett, General Agent
715-19 Rector Building

CALIFORNIA

Fresno
Charlton G. Standeford,
General Agent
328 Brix Building

Los Angeles
Paschall-Gist Company,
General Agents
523 West Sixth Street

A. N. Boulton, Sales Mgr.,
Railroad Dept.
523 West Sixth Street

Oakland
Ted Dreyer, General Agent
903-8 Central Bank Building

Sacramento
Herbert G. Pink, General Agent
209-11 Forum Building

San Diego
G. Campbell Janney, Gen. Agt.
515 First National Bank Bldg.

San Francisco
H. Kenneth Cassidy, Gen. Agt.
660 Market Street

San Jose
C. T. Abell, General Agent
508-9-10 Twohy Building

COLORADO—Denver
Fabling and Fabling,
General Agents
607 Colorado Building

DELAWARE
Hare and Chase, Gen. Agts.
133-35 South Fourth Street
Philadelphia, Pennsylvania

DISTRICT OF COLUMBIA

Washington
Donald Webster, Acting Mgr.
204-7 Kellogg Building

FLORIDA—Tampa
W. R. Letcher, General Agent
311 Twiggs Street

GEORGIA—Atlanta
Emory L. Jenks, Gen. Agt.
1317-22 First Nat. Bank Bldg.

IDAHO
Hazen Exeter, General Agent
510 Continental Bank Building
Salt Lake City, Utah

ILLINOIS

Chicago
E. E. Henderson, Gen. Agt.
A1845 Insurance Exch. Bldg.

John L. Watts, General Agent
2015-17 Conway Building

Earle S. Rappaport, Gen. Agt.
2nd Fl., 174 W. Jackson Blvd.

C. H. Davis, Manager
Railroad Dept.
Room 1129, Utilities Bldg.
327 So. La Salle Street

Springfield
Leon J. Senesac, General Agent
405 Ferguson Building

INDIANA

Evansville
A. Wayne Toy, General Agent
Mezz. Fl., Citizens Bank Bldg.

Indianapolis
Earl T. Bonham, Gen. Agt.
401-6 Chamber of Com. Bldg.

IOWA

Cedar Rapids
Oscar J. Larson, General Agent
435-7 Higley Building

Des Moines
Byron L. Hart, General Agent
726-8 Des Moines Building

KANSAS—Wichita
William E. Moore, Gen. Agt.
310 Brown Building

KENTUCKY—Louisville
Thomas H. Wall, Gen. Agt.
431-2 Martin Brown Building

LOUISIANA—New Orleans
Guy C. Lyman, General Agent
713-16 Hibernia Bank Building

MARYLAND—Baltimore
Bowen, Bartlett and Kennedy,
General Agents
26 South Calvert Street

MICHIGAN

Detroit
E. Walter Albachten, Gen. Agt.
1615-19 National Bank Building

Grand Rapids
C. T. Allen, General Agent
409 Assn. of Commerce Bldg.

MISSISSIPPI—New Albany
Paul Owen, General Agent

MISSOURI

Kansas City
R. E. Watts, General Agent
12th Fl. Insurance Exch. Bldg.
21 West 10th Street

St. Louis
Rex N. Rafferty, General Agent
506 Olive Street—Eighth Floor

PACIFIC MUTUAL AGENCIES

MONTANA—Billings
Harry Reynolds, General Agent
516-17 Securities Building

NEBRASKA—Omaha
Frank L. Sveska, Gen. Agt.
712 First National Bank Bldg.

NEVADA
Hazen Exeter, General Agent
510 Continental Bank Building
Salt Lake City, Utah

NEW JERSEY—Newark
T. C. Sherman, Gen. Agt.
2528-34 Raymond-Com'ce Bldg.
1180 Raymond Blvd.

NEW MEXICO
The Schwentker-Bruce Agency
915 Mills Building
El Paso, Texas

NORTH CAROLINA—Charlotte
G. W. Patterson, General Agent
116½ East 4th Street

NORTH DAKOTA—Fargo
P. W. Satory, General Agent
535 de Lendrecie Bldg.

OHIO
Cincinnati
Joseph M. Gantz Agency,
General Agents
23rd Floor Carew Tower

Columbus
Joseph M. Gantz Agency,
General Agents
3100-10 A. I. U. Tower

Cleveland
R. B. Coffman, General Agent
810 Leader Building

Dayton
F. C. Holloway, General Agent
1006-8 Harries Building

OKLAHOMA—Oklahoma City
C. C. Day, General Agent
801-5, 847-55 Amer. Nat. Bldg.

OREGON—Portland
E. A. Ellis, General Agent
1100 Yeon Building

PENNSYLVANIA
Allentown
George C. Hutchins, Gen. Agt.
511-13 Commonwealth Bldg.

Erie
Cyrus Lund, General Agent
1403 Erie Trust Building

Philadelphia
Hare and Chase, Gen. Agts.
133-35 South 4th Street
J. C. Staples, Manager
404 Perry Building

Pittsburgh
Hoover and Diggs, Gen. Agts.
10th Fl. Commonwealth Bldg.
A. M. Klages, Manager
904 Clark Building

SOUTH CAROLINA—Anderson
J. W. Dickson, State Agent
Anderson Building

SOUTH DAKOTA—Deadwood
Seth R. Ellis, General Agent

TENNESSEE—Memphis
Cliff Blackburn, General Agent
1003-6 Farnsworth Building

TEXAS
Dallas
Lem C. Swinney, Gen. Agt.
10th Fl. Tower Petroleum Bldg.

El Paso
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501-3 Trust Building

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The Dwight Mead Agency
322 Skinner Building

WEST VIRGINIA—Huntington
Theodore Hundley, State Mgr.
501 Chesapeake and Ohio Bldg.

WISCONSIN—Milwaukee
E. H. Mueller, General Agent
933-4 Bankers Building

WYOMING
Fabling and Fabling,
General Agents
607 Colorado Building
Denver, Colorado

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The Insurance Commissioner of the State of California

368302
P11f
1940

FINANCIAL STATEMENT

DECEMBER 1940

PACIFIC MUTUAL LIFE INSURANCE COMPANY

LOS ANGELES, CALIFORNIA

TO OUR POLICYHOLDERS:

This is addressed to people: To nearly 250,000 people—in every state in the Union; in country and city; in store, office, factory, and the home. They are the people of America who work together, plan together, and freely express their thoughts and wishes for today and for the future.

For Pacific Mutual Policyholders and the beneficiaries of Pacific Mutual distributions are the essence of America, with interests and activities as varied as the pattern of American life. And this Company, resulting from their thrift and foresight, is proud of the honor it possesses in serving them—and through them, of contributing to the American Way of Life.

February 20, 1941.

President.

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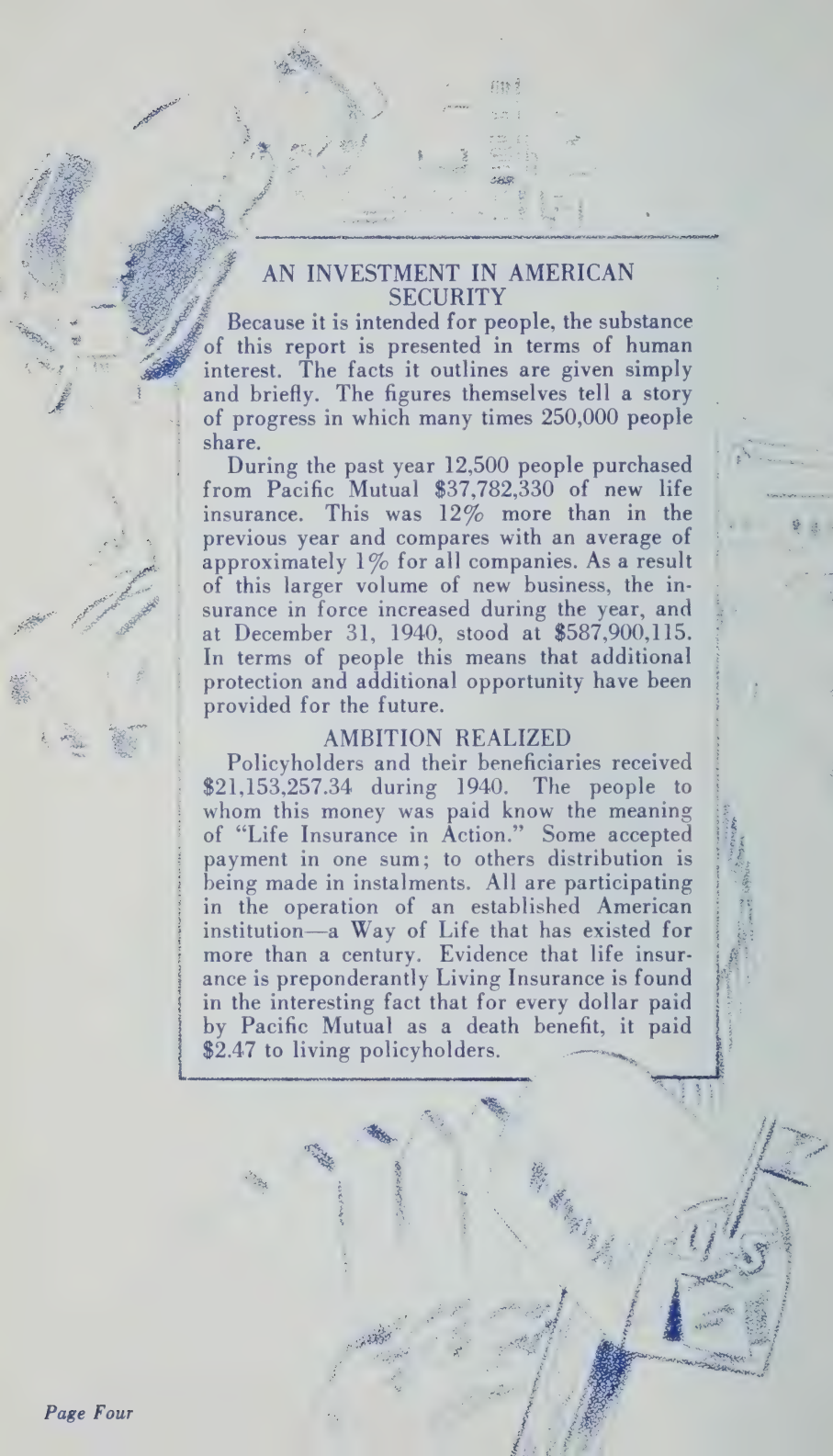
AN INVESTMENT IN AMERICAN SECURITY

Because it is intended for people, the substance of this report is presented in terms of human interest. The facts it outlines are given simply and briefly. The figures themselves tell a story of progress in which many times 250,000 people share.

During the past year 12,500 people purchased from Pacific Mutual $37,782,330 of new life insurance. This was 12% more than in the previous year and compares with an average of approximately 1% for all companies. As a result of this larger volume of new business, the insurance in force increased during the year, and at December 31, 1940, stood at $587,900,115. In terms of people this means that additional protection and additional opportunity have been provided for the future.

AMBITION REALIZED

Policyholders and their beneficiaries received $21,153,257.34 during 1940. The people to whom this money was paid know the meaning of "Life Insurance in Action." Some accepted payment in one sum; to others distribution is being made in instalments. All are participating in the operation of an established American institution—a Way of Life that has existed for more than a century. Evidence that life insurance is preponderantly Living Insurance is found in the interesting fact that for every dollar paid by Pacific Mutual as a death benefit, it paid $2.47 to living policyholders.



There is a very simple and very human way to describe these distributions, representing, as they do, the realization of cherished ambitions. To some these payments are the culmination of plans for retirement made many years ago; to others they are the source of financial assurance to families without other income. In each instance they represent thoughtful provision for future security, accomplished by individual initiative in the traditional American manner.

Beyond these distributions to policyholders and beneficiaries, $6,015,408.92 have been added to the Policy Reserves, bringing these total accumulations to $227,357,932.70.

A NEW ALL-TIME RECORD

Even in these days when large amounts no longer excite comment, these distributions of many millions of dollars by Pacific Mutual for benefits to policyholders, represent in the aggregate a sum that must be recognized as of very considerable magnitude.

It has been possible to achieve these results through the administration of an ever-increasing volume of sound, working Assets. In the past year these increased $6,585,819.14, reaching a total of $247,124,793.77, held by the several Departments of the Company in the following amounts: Participating Life Department $155,365,318.65; Non-Participating Life Department $59,966,504.47; Accident and Health Department $25,689,939.36, and Corporate (applicable to all Departments) $6,103,031.29.

ASSETS AT WORK

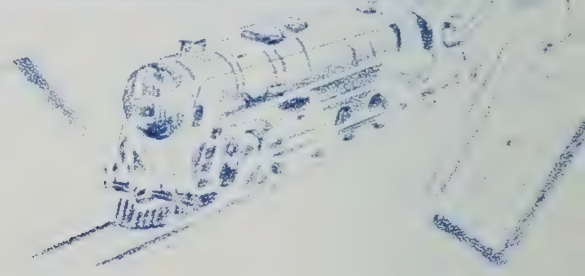
People in every walk of life benefit from the useful employment of these Assets. The Nation's vital program is assisted by the money represented in Pacific Mutual's ownership of $53,787,385.05 of Federal, State and Municipal Securities. Transportation, communication, trade, commerce, industry, and home-building are stimulated by the participation of Company investment in public utilities, manufacturing enterprises, transportation companies, and in loans to home owners. These Assets, productively employed, help to assure the future growth and safety of our American institutions; for they make jobs and create new opportunities for the people of our country.

DIVERSIFICATION—SAFETY

Here is a brief summary of the investments, revealing the distribution by groups and indicating the extent to which diversification has been attained:

		% of Total Assets
U. S. Government Bonds	$ 41,441,324.10	16.8
State, County & Municipal Bonds	12,346,060.95	5.0
Canadian Government Bonds	2,542,558.70	1.0
Public Utility Bonds	19,120,943.80	7.7
Railroad Bonds	10,535,534.92	4.3
Industrial and Other Bonds	5,616,113.67	2.3
Preferred Stocks	1,085,376.42	0.4
Common Stocks	1,541,870.58	0.6
Loans on City Properties (Exclusive of F. H. A.)	56,344,832.48	22.8
Loans on Farm Properties	1,724,640.25	.7
F. H. A. Insured Loans	33,326,560.18	13.5
Real Estate Including Home Office	19,288,453.13	7.8
Loans to Policyholders	31,896,796.46	12.9
Cash and Other Assets	10,313,728.13	4.2
Total	$247,124,793.77	100.00

From these investments the net interest earned during 1940 was 3.70% for the combined Life Departments, and 3.64% for the Company as a



whole. It is readily apparent that interest earnings have an important bearing on the cost of life insurance.

AN OLD AMERICAN TRADITION

There is a human interest aspect to this earning factor, since the effect it has upon the value of the policyholders' contracts is the direct result of the service performed by the invested assets. There is presented in this situation an almost perfect example of People working together in the common cause under our American system of free enterprise.

Because the continued well-being of so many people centers in the effective administration of the Company's Assets, there is occasion to give particular note to this subject. The principal Assets are grouped in five general divisions:

(1) Bonds
(2) Mortgage Loans
(3) Real Estate
(4) Loans on Policies
(5) Cash

Bonds and Mortgage Loans are the two largest groups, each representing investments in excess of $90,000,000. A Committee consisting of five members of the Board of Directors meets regularly—twice each month throughout the year—to consider investments, to formulate plans, and to consult with the members of the Investment Departments. This close supervision reflects itself in the quality of Pacific Mutual's investments, as well as in the relatively favorable interest earnings that have been secured under conditions of generally low prevailing rates.

PACIFIC MUTUAL LIFE

BALANCE SHEET, DECEMBER 31, 19

(Participating Life, Non-Participating L

ASSETS

CASH ON HAND AND IN BANKS (including time deposits)		$ 4,626,654.18
BONDS:		
United States Government	$41,441,324.10	
Canadian Government	2,542,558.70	
States, counties, and municipalities	12,346,060.95	
Public utility, industrial, and other	35,272,592.39	
Total bonds		91,602,536.14
CORPORATE STOCKS:		
Preferred	$ 1,085,376.42	
Common	1,541,870.58	
Total corporate stocks		2,627,247.00
MORTGAGE LOANS ON REAL ESTATE (including F. H. A. loans, $33,326,560.18)		91,396,032.91
COLLATERAL LOANS		672,656.89
LOANS ON POLICIES		31,896,796.46
REAL ESTATE:		
Home Office property	$ 9,844,538.79	
Other properties	9,443,914.34	
Total real estate		19,288,453.13
INTEREST AND RENTS DUE AND ACCRUED		1,414,271.32
PREMIUMS OUTSTANDING AND DEFERRED		3,495,202.10
OTHER ASSETS		104,943.64
TOTAL		$247,124,793.77

NOTES: At December 31, 1940, bonds and real estate mortgages (trust deeds) authorities to meet statutory requirements.

The accounts of the Company's agency offices were closed as of Decem reflected in the above statement.

The Company's capital stock is subject to the mutualization option pro

Financial

The business of Pacific Mutual Life Insurance Company is conducted in th Health). The assets are held to secure their respective obligations as fully as if ing Life and Accident and Health Departments are available for the general co dividends) of reinsured Participating Life business of The Pacific Mutual Life I Department, including all profits on Participating policies issued by the Compan mutual company. The ownership by the separate Departments of the Assets de Report to Policyholders.

ISURANCE COMPANY
COMBINING ALL DEPARTMENTS
Accident and Health, and Corporate)

LIABILITIES

POLICY AND CLAIM RESERVES:		
Policy reserves	$190,946,911.10	
Approved claims payable in instalments	33,583,267.00	
Death, disability, and endowment claims awaiting completion of proofs	2,827,754.60	
Total policy and claim reserves		$227,357,932.70
OTHER LIABILITIES TO POLICYHOLDERS:		
Policy dividends left with Company and accrued interest thereon	$ 5,440,048.00	
Reserve for dividends	954,681.76	
Advance premium deposits	911,320.21	
Advance interest on policy loans	687,660.44	
Total other liabilities to policyholders		7,993,710.41
RESERVE FOR FEDERAL, STATE, AND COUNTY TAXES		750,871.00
OTHER LIABILITIES		1,108,066.92
INVESTMENT CONTINGENCY RESERVES		3,479,924.67
UNASSIGNED SURPLUS (for the exclusive use of the Participating Life Department)		331,256.78
CAPITAL STOCK AND SURPLUS (available for all departments):		
Capital stock (authorized and issued, 10,000 shares of $100.00 each)	$ 1,000,000.00	
Surplus (including paid-in surplus, $2,000,000.00)	5,103,031.29	
Total capital stock and surplus		6,103,031.29
TOTAL		$247,124,793.77

ıe aggregate book value of $947,966.40 were on deposit with various state

, 1940; hence the transactions of such offices subsequent to that date are not

for in the agreement of July 22, 1936.

ʻucture

ːpartments (Participating Life, Non-Participating Life, and Accident and Department were a separate company. Surpluses arising in the Non-Participat- purposes of the Company, as are ten per cent of the profits (before policy ıce Company of California. The remaining profits of the Participating Life held to secure the obligations of that Department as fully as if it were a in the Consolidated Financial Statement is set forth in the accompanying

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

PACIFIC MUTUAL BUILDING
LOS ANGELES

ACCOUNTANTS' CERTIFICATE

To the Board of Directors of
Pacific Mutual Life Insurance Company:

We have made an examination of the balance sheet of Pacific Mutual Life Insurance Company as of December 31, 1940. In connection therewith, we examined or tested Home Office accounting records of the Company and other supporting evidence and made a general survey of the accounting methods and tests of the income and disbursement accounts for the year 1940.

Our survey of accounting methods extended to the various departments of the Company responsible for the control of its income and expenditures and for the custody of its assets. As a result of our survey and of our examination or tests of the cash and other transactions, we are of the opinion that the methods employed and the controls exercised are effective.

We verified the cash balances by count and by certification of the depositaries, and the bonds and corporate stocks by inspection of those on hand, and by confirmation of the depositaries as to those held elsewhere. We examined a representative number of mortgage loans by inspection of the notes and related documents and made test confirmations of the balances by correspondence with the debtors; we examined the collateral loans by inspection of the notes and collateral pledged thereunder, and confirmed their correctness by reference to the borrowers; as to policy loans, we made test inspections of the loan contracts. We examined the records and supporting documents pertaining to all real properties acquired or disposed of during the year.

The investment securities are stated on valuation bases approved by the National Association of Insurance Commissioners, i.e., amortizable bonds at amortized values, non-amortizable bonds at market values at December 31, 1940, and corporate stocks at book values, except as to corporate stocks acquired subsequent to June 30, 1939, which are stated at market values. The real properties are stated at values set up at the date of reorganization, July 22, 1936, as determined by the Convention Examination as of December 31, 1935, brought down to reflect the changes to July 22, 1936, plus subsequent additions at cost or less, and after deducting $1,412,856.09 for depreciation and amortization of the Home Office property. The policy and claim reserves were examined by Mr. William M. Corcoran, Consulting Actuary, of New York City, who has stated in his certificate that the total of such reserves, $227,357,932.70, is a satisfactory and adequate present valuation of the Company's liability therefor. The investment contingency reserves represent the Company's estimate of probable losses on realization of mortgage loans and real estate, and the amount of the valuation requirement for collateral loans.

In our opinion, based on such examination, the accompanying balance sheet fairly presents the financial condition of the Company at December 31, 1940.

HASKINS & SELLS

Los Angeles, February 12, 1941.

ANALYSIS OF ASSETS

Bonds

During the year the Company's aggregate investments in bonds increased from $88,262,835.60 to $91,602,536.14. Holdings of U. S. Government obligations, which represent the largest single item in the bond account, remained practically unchanged during the year. Principal increases occurred in the field of State, County and Municipal obligations and of sound public utility enterprises supplying electricity, gas and telephone service, which provide a conservative and geographically diversified outlet for funds.

Mortgage Loans

The Company's investment in Mortgage loans has increased from $83,865,922.12 to $91,396,032.91, due primarily to acquisition of additional F. H. A. Insured loans. The experience with this class of investment has been very satisfactory, not only from the standpoint of return, but also with respect to the required repayments. The Company now has 9,748 mortgage loans secured by properties in 22 states and Hawaii, and is servicing these through six branch offices staffed by salaried representatives who also assist in the solicitation of desirable loans. Of the total mortgage loans, City loans represent $56,344,832.48 (exclusive of F. H. A.) ; Farm loans $1,724,640.25 and F. H. A. Insured Loans $33,326,560.18.

Real Estate

Real Estate is divided into two principal groups: The Home Office property and Other Real Estate. The Home Office is located in the center of downtown Los Angeles, and consists of a modern office building occupying an entire block on its principal frontage.

The street floor is leased to important business establishments, and office space in the other floors of the building not required for Company purposes is occupied by suitable tenants. The amount at which the property is carried on the books is reduced by an annual charge of $270,851.39 for depreciation and amortization. As properties representing other real estate can be conditioned and placed on the market, they are offered for sale, since it is not the policy of the Company to hold, unnecessarily, real estate which comes into its possession. Sales this past year aggregated $2,025,192.81.

Loans on Policies

Loans are made to policyholders on the security of their policy reserves, and at the year end totaled $31,896,796.46. While it is the policyholders' right to make such borrowings, repayment should be the ultimate objective in order that the protection as originally planned may remain unimpaired. The Company has 72,448 outstanding loans on policies, with the average loan for $440.27.

Cash

Cash on hand and in banks amounts to $4,626,654.18, of which $3,450,000.00 is placed at interest in certificates of deposit or time deposits. It is the desire of the management to keep its funds as completely invested as the daily needs of the business will permit. Whatever interest can be secured from this source is a desirable addition to earnings in these times of low money rates.

SAVINGS FROM MORTALITY

Legal reserves are calculated on mortality tables which contemplate that a certain number of persons insured at any given age will be expected to die within each successive year. Because of careful medical selection and proper underwriting practices, the actual number of deaths is less than those assumed, and the "actual" mortality is therefore better than the "expected." Expressed in terms of "per cent" the actual mortality in 1940 was 57.4% of that expected.

"PLUS" FACTORS

From the year's operations—after payments to policyholders, additions to policy and claim reserves, reserve for taxes and other charges and expense—Pacific Mutual increased its Corporate Surplus account to $5,103,031.29. This is an increase of $828,106.87 and brings the total Capital and Corporate Surplus to $6,103,031.29, over and above the legal reserves, as additional security for all policyholders and does not include the surplus amounting to $331,256.78 applicable exclusively to the Participating Life Department. There is also an Investment Contingency Reserve of $3,479,924.67 created by the Board of Directors to provide against anticipated loss resulting from the ultimate disposal of certain of its Assets. This Reserve changes from year to year as the underlying situations themselves change.

INDEPENDENT AUDIT

It is the custom of Pacific Mutual to secure an annual independent audit and examination of its accounts. This year again, Haskins and Sells, nationally recognized Certified Public Accountants, audited the books and William M. Corcoran, Consulting Actuary of New York, verified policy and claim reserves. The auditors' official certificate is contained in and made a part of this report.

AN ACKNOWLEDGMENT

Pacific Mutual is represented by an experienced and capable organization, in the Field and at the Home Office. In general, the men and women who constitute this group have made the protection of people through Insurance a career. They seek to be useful to you in the attainment of the objectives you have defined for your-

self. Your Company is proud of them and what they have done, and commends them to you without reservation. They, too, are a part of the great American institution of free enterprise.

TRUSTEES AND DIRECTORS

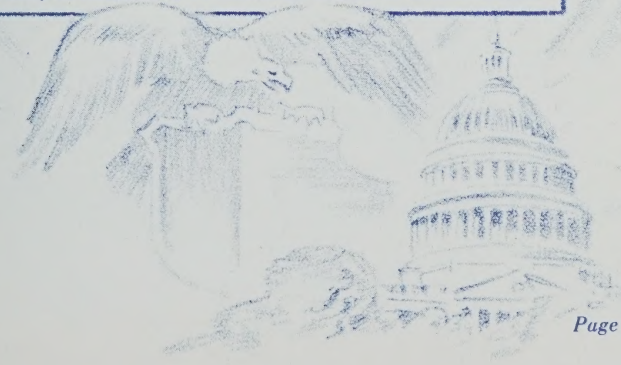
In life insurance the human values embraced in its service surpass all others. It is in consequence a happy circumstance that Pacific Mutual possesses in its Voting Trustees and in its Board of Directors, men who by long devotion to affairs of public interest have dedicated themselves to the objectives we seek in the administration of Pacific Mutual Life Insurance Company. Their attitude is best described in the words of the Hon. Benjamin F. Cardozo, former Associate Justice of the Supreme Court of the United States:

> "Many forms of conduct permissible in a workaday world for those acting at arm's length are forbidden to those bound by fiduciary ties. A trustee is held to something stricter than the morals of the market place. Not honesty alone but the punctilio of an honor the most sensitive is then the standard of behavior. As to this, there has developed a tradition that is unbending and inveterate."

The service that is being performed by Life Insurance is as essential as ever—perhaps more essential. People will continue to need income, for the retirement years and for the protection of dependents. But to those who may fear for the future it is pertinent to observe that Life Insurance is the agency most certain to provide that income which will ultimately be required. And if more dollars are to be needed, then prudence suggests that more life insurance is the adequate answer to that future need.

CONFIDENCE AND CONSERVATISM

In the World, as it exists at the start of the year 1941, there are many things to which we may give ear, and be perplexed. Times are disturbed and new difficulties may yet confront us. But the service to which this Company is dedicated—to provide income when income is needed—is an objective we view with confident assurance. And to the end that each policyholder may share that certainty of fulfillment, we choose the course of conservatism.



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McCutcheon, Olney, Mannon & Greene,
San Francisco

HARVEY S. MUDD
Los Angeles

SILAS H. PALMER
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